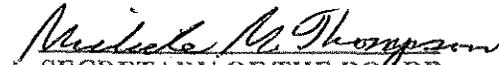


MAY 3 1 2011

  
SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE  
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

March 14, 2011

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, March 14, 2011, beginning at 2:00 p.m. via videoconference in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana; Room 414, Administrative Office Building, 1737 West Polk Street, Chicago; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield. Trustee McMillan convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Edward L. McMillan, chair of the committee; Mr. James D. Montgomery, and Mr. Lawrence Oliver. Ms. Pamela B. Strobel was absent. Mr. Charles L. Olivier, student trustee from the Springfield campus, was present.

Also present were President Michael J. Hogan; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Mrinalini C. Rao, vice president for academic affairs; Dr. Avijit Ghosh, special assistant to the president; Mr. Thomas R. Bearrows, University counsel; and Dr. Michele M. Thompson, secretary.

Attached is a listing of other staff members in attendance at this meeting, as well as some members of the media.

Mr. McMillan welcomed committee members and others to the meeting and stated that the first item on the agenda is to approve the minutes from the meeting held on January 10, 2011.

On motion of Mr. Montgomery, and seconded by Mr. Oliver, the minutes were approved unanimously.

#### DISCUSSION REGARDING THE WIND TURBINE PROJECT

Mr. McMillan introduced Ms. Laurel Prussing, mayor of the city of Urbana, and Mr. Suhail Barot, leader of the Student Sustainability Committee at the Urbana campus, to provide comments regarding the wind turbine project at the Urbana campus. Mayor Prussing stated that residents of Urbana are concerned about the proposed location of the wind turbine and its affect on the surrounding area, including the impact on the value of their homes and land. She indicated that those involved with the project at the University have been unwilling to share critical information with the public, and she asked for greater public engagement. In addition, she said that the limited capacity of the wind turbine to create energy makes this project an inefficient use of funds.

Mr. Barot described this project as a high student priority backed by student-generated sustainability fees, and highlighted the benefits of the project, including the potential use of renewable energy and the reduced costs for implementation due to grant funding. He said that if the project had been completed when it was originally planned, the University of Illinois would have been the first university to install a wind turbine on its campus. He stated that the project is aligned with the University's educational goals, and said that failure to complete the project will show students that commitments from the University are useless. He also expressed concern that it may be difficult to obtain future funding for this project if the current funding isn't utilized.

Mr. Montgomery advocated finding a solution that would appease both the residents of Urbana and the students of the Urbana campus, and proposed that it may be possible to select an alternative site with greater capacity for energy production. Mayor Prussing expressed support

for alternative energy sources and said such a project should be conducted openly and with public involvement. Mr. Barot stated that the current grant will expire in three months, and noted that with 40 percent of the costs covered by the grant, the current project is a cost effective option. He also repeated his concern regarding the University's ability to obtain funding for this type of project again in the future if the pending grant is not accepted and the turbine is not installed. Mr. McMillan assured Mr. Barot that the current Board is committed to sustainable energy, and he said trustees have appreciated the feedback they have received on both sides. He stated that while he is aware of the current deadline, he would like to discuss the possibility of an extension. He concluded by stating that the Board is not trying to abandon its commitment to sustainability and hopes it might be possible to identify a solution that will satisfy both students and residents of Urbana.

#### PRESENTATION – DIVERSITY PROCUREMENT

Mr. McMillan then introduced Dr. Heather Haberaecker, executive assistant vice president for business and finance, to provide an update on diversity procurement. Dr. Haberaecker began her presentation (materials on file with the clerk) with an overview of the Minority and Female Business Enterprise Program (MAFBE) and a definition of a MAFBE-owned business. She showed capital and non-capital MAFBE expenditures from fiscal years 2007 through 2010 and presented MAFBE expenditures by category for that same time period, noting that the figures in fiscal years 2007 and 2008 reflect a large project at the Chicago campus that adhered to the city of Chicago's MAFBE requirements. She presented data showing an increase in expenditures to businesses owned by minority females, minority males, and individuals with disabilities. She said that future presentations may focus on the addressable spend, which includes only expenditures for which minority vendor opportunities exist, and stated that the addressable spend

decreased between fiscal years 2009 and 2010, while MAFBE expenditures increased as a percentage of total addressable spend due to a decline in overall expenditures. Next, she described an annual MAFBE conference, outreach events, and vendor workshops, and she told the committee that the Bronner Group had been retained to assist in creating strategies and opportunities to increase MAFBE participation in professional and artistic services. She then introduced Mr. Nick Tzitzon, senior vice president for the Bronner Group, to provide a presentation (materials on file with the clerk) of their initial preliminary assessment.

Mr. Tzitzon provided an overview of the Bronner Group and introduced his colleagues: Mr. Robert Fortes, Mr. Ari Harper, and Ms. Bernadine Robinson. He said that the first phase of the project is almost complete, and explained that recommendations and implementation would take place in phases two and three. He introduced Mr. Robert Fortes, the former director of supplier diversity for the Commonwealth of Massachusetts and lead external expert for this assessment, to present initial findings. Mr. Fortes described obstacles resulting from the procurement environment that are detrimental to the participation of small minority-owned businesses, and he responded to questions from committee members on this topic. Mr. Tzitzon added that despite a procurement environment that is highly regulated, the existence of the University's supplier diversity program demonstrates a high level of effort. Mr. Fortes continued the presentation and stated that communications and policies at the University are not adequate, and advocated that a strong statement is needed that clearly communicates goals and strategies for increasing diversity. Committee members discussed internal and external communication at the University, and the presenters emphasized the need for constant and consistent communication, which they said should include an explanation of the reasons that supplier diversity is important. Mr. Fortes presented graphs measuring the University's progress and

described 30 to 40 interviews that were conducted in the course of this assessment, in addition to the collection of data to compare the University to its peers, stating that there is no clear national leader in supplier diversity at this time.

Mr. Fortes then stated that the group's findings indicate that the University's supplier diversity program is not adequately resourced and is insufficiently staffed, and he compared the benefits and disadvantages of housing the responsibility for supplier diversity at each campus or at a central administrative office. He compared the staffing structure in this area at the University of Illinois to peer institutions, and provided a chart depicting moderate success of implementation of some aspects of the supplier diversity program. He then addressed outreach, noting the considerable effort and success in this area, and said that substantial improvement could be found in non-traditional outreach and with additional resources. He discussed sourcing strategies that could be utilized, showed that the University's current sourcing strategies are moderately successful, and described the positive aspects of the current supplier diversity program. He stated that current major barriers to having a nationally recognized program include the procurement environment and lack of dedicated resources, and Mr. Tzitzon presented the next steps for phases two and three of this project. Some discussion followed regarding mission statements related to vendor diversity, and Mr. Tzitzon indicated that the University could be a leader in this area. With no additional questions or comments, Mr. McMillan and Mr. Knorr thanked representatives from the Bronner Group for their presentation.

## PRESENTATIONS AND REVIEW OF RECOMMENDED BOARD ITEMS

### Tuition and Fee Increases, Student Health Insurance Fees

Next, Mr. McMillan asked Mr. Knorr to present information regarding the proposed Academic Facilities and Maintenance Assessment (AFMA), the Library Information Technology Fee,

health insurance fees, and background information about tuition for fiscal year 2012. Mr. Knorr began his presentation (materials on file with the clerk) with a review of proposed student assessments, and stated that the proposed AFMA increase is tied to the Illinois Construction Index. He stated that there was no proposed increase in the Library/IT fee, and he reminded committee members that a proposed increase was discussed at the last meeting of this committee. He said the change resulted from student input that included a report analyzing the necessity of an increase. He then presented the proposed per semester student health insurance costs, with increases of \$13 at Urbana, \$8 at Springfield, and no increase at Chicago. Following this he provided an overview of the cost of all combined student fees and assessments at each campus, and showed an increase of \$6 per semester at Urbana, \$15.80 at Springfield, and a decrease of \$15 at Chicago.

Next, Mr. Knorr discussed tuition for fiscal year 2012, and he reviewed the goals of the policy that was passed at the last Board meeting to stabilize tuition and keep tuition flat on an inflation adjusted basis. He emphasized the need to sustain academic quality and affordability, and mentioned efforts across the University to decrease costs and spending. He then reviewed State appropriation revenue, showed that the State has not paid \$437.0 million of the \$664.0 million that has been billed by the University, and stated that these figures do not include the \$44.8 million receivable for the Monetary Award Program (MAP) funding for student financial aid from the State. He showed that when adjusted for inflation, the direct appropriation from the State has decreased by 26 percent in the last 40 years, and said that State support is now equal to \$.80 per tuition dollar. President Hogan and Mr. Knorr discussed the decrease in State support and increased student enrollment, and Dr. W. Randall Kangas, associate vice president for planning and budgeting, provided clarification regarding related questions that were posed

recently by members of the Senate Appropriations Committee. Dr. Kangas discussed the effect of an increase in student enrollment, financial aid, and costs related to utilities, payroll taxes, and workman's compensation, and said that it is difficult to compare the costs of educating students at the University of Illinois to other State universities because of the broad scope and type of programs offered to undergraduates and graduate students at the University of Illinois. Mr. Doug Beckmann, senior associate vice president for business and finance, added that the increase in student enrollment is a key factor, since State support per student has decreased as student enrollment has increased. President Hogan stated that student enrollment in higher education institutions should be increasing at a faster rate to produce a greater number of graduates to enable the State to be fully competitive in a global marketplace.

Next, Mr. Knorr compared the general revenue fund appropriation from fiscal year 2001 through 2011, showed that State and tuition dollars are used to support the instructional mission of the University, and provided a chart presenting increases in student applications from 1991 through 2010 and in enrollment from 2000 through 2010. He then described the guaranteed tuition program, showed the levels of Pell (federal), MAP (State), and supplemental aid from the University, and told committee members that tuition is tied to funding for supplemental financial aid. He presented data reflecting the percentage of students that pay the full cost of tuition on each campus: 54 percent at Urbana, 40 percent at Chicago, and 30 percent at Springfield, and also showed that capital appropriations have been limited in recent years. He concluded his presentation with a summary of key points, stating that: State support continues to diminish; competition for faculty and staff continues; half of all undergraduates receive some type of need-based or merit-based assistance; and institutional need-based supplemental aid has increased from less than \$1 million to well over \$45 million. President Hogan added that with an inflation-

adjusted tuition increase and no increase in State support, the purchasing power of the University will not increase. He mentioned potential State cuts and a needed compensation package for faculty and staff, and Mr. Knorr stated that savings resulting from changes outlined in the Administrative Review and Restructuring (ARR) report and efforts to retain costs will help in these areas.

#### Development Agreement for the University of Illinois Research Park

Next, Mr. McMillan asked Dr. Avijit Ghosh, special assistant to the president, to provide information about the proposed development agreement for the University of Illinois Research Park. Dr. Ghosh provided a brief history of the creation of the Research Park as a limited liability company with the Board of Trustees as the sole member in January 2000. He stated that in anticipation of the expiration of the development agreement, the process for selecting a developer began in June 2009, and a Request for Proposal (RFP) was issued by the University and the University of Illinois Research Park Board of Managers. He said that Fox/Atkins Development, LLC, was selected as the preferred developer, and he highlighted some aspects of the development agreement, which he indicated are outlined in a draft of the item that will appear on the agenda at the Board meeting on March 23, 2011. He then responded to questions about the Research Park, and told trustees that all businesses residing there must have a link to the University. He described the benefits to students, faculty, and staff, and said that it supports the University's mission. Mr. McMillan thanked Dr. Ghosh and others who were involved in this process.

#### Auxiliary Facilities System Revenue Bonds

Mr. Knorr reviewed information pertaining to auxiliary facilities system revenue bonds, series 2011A, totaling \$78.0 million, which he said would be used to fund Phase E of residence hall

number two at Ikenberry Commons and the Forbes Hall demolition at Urbana. He explained the source of revenue to pay the debt would come from housing fees, and said that this item will seek permission to start the process to obtain financing, with a request for final approval in June. With no questions or comments, Mr. McMillan stated that there was no objection to moving this item forward to the full Board.

#### Capital Projects, Leases, and Renaming

Mr. McMillan then asked Mr. Michael Bass, senior associate vice president for capital programs and real estate services, to review the recommendations for capital projects that will appear on the agenda at the Board meeting on March 23, 2011. Mr. Bass provided a brief description of the following projects (materials on file with the clerk):

- Exterior repairs at Davenport Hall at Urbana, funded by AFMA
- Infrastructure work at Smith Memorial Hall at Urbana, funded by AFMA
- Electrical and mechanical repairs at the Pharmacy Building at Chicago
- Utilities master plan at Chicago
- Stanley O. Ikenberry Commons, Residence Hall number Two, Phase E, and Forbes Hall Demolition at Urbana; Mr. Bass noted that the total MAFBE award for Phase E of Stanley O. Ikenberry Commons Residence Hall number two and the Forbes Hall demolition equals 16.3 percent, which surpasses the goal of 15 percent, and acknowledged that this required substantial effort for those involved. He also described the following capital projects:
  - Approval of an architectural engineer for exterior repairs and ground floor renovations at the Education Building at Urbana; Mr. Bass noted that this is a State project that requires the recommendation of an architectural engineer to the Capital Development Board.

- Three year extension of the current lease for the National Center for Supercomputing Applications in Washington, D.C.
- Authorize lease of space at Illini Plaza, 1817 South Neil, Champaign, for University payables and strategic procurement offices
- Rename the Clay Hydrology Laboratory, the Shop and Equipment Building, and the Core Storage Building to resolve a safety issue for first responders and to better reflect the functions of these buildings.

There were no questions, comments, or concerns related to these items.

#### Purchase Recommendations

Dr. Haberaecker reviewed a purchase recommendation for an automatic tape library subsystem for Blue Waters at Urbana, the National Center for Supercomputing Applications' new supercomputer; electronics and maintenance for the fiber-to-the-premise services for the Big Broadband project in Champaign; and the renewal of a contract for pacemakers, leads, implantable cardioverter defibrillators, and ancillary items for the University of Illinois Medical Center at Chicago.

There was no opposition to these recommendations being advanced to the Board as a whole.

#### REPORTS

##### Internal Audit Report - Second Quarter

Ms. Julie A. Zemaitis, executive director of University Audits, presented a summary of audit activity for the second quarter, which ended on December 31, 2010, along with selected updates through February 28, 2011 (materials on file with the clerk). She provided an overview of the audit plan completion status through the second quarter, stating that 11 percent of audits

are complete and 24 percent have been initiated, and said that investigations and special projects have been conducted at an unprecedented pace this year, noting that she reviewed the audit plan and has made appropriate revisions to balance the activity of the remaining two quarters of the fiscal year. She then provided a chart summarizing the 16 reports issued in the second quarter by type and presented audit report findings by risk level and by campus. She noted that eight information technology audits were performed, primarily at the college-level, and said this comprised about half of the audit recommendations. She showed percentages of high and moderate risk findings in selected areas during the second quarter, and showed an analysis of the implementation of audit recommendations from fiscal year 2009 through the second quarter of 2011. She said that the high level of open recommendations is due to first-time college-level information technology audits and a utilities audit that was conducted several years ago with 70 recommendations. She stated that the remaining 257 recommendations are consistent with the historical balance.

Ms. Zemaitis then presented a table reflecting the aging of outstanding recommendations by original implementation date, and said that 73 percent of the total recommendations are not yet due to be implemented. She said that it takes approximately one year for management to implement recommendations, and that approximately 80 percent of recommendations are implemented after one or two follow-ups. Lastly, she showed that the aging of audit recommendations with original implementation dates of fiscal year 2010 and prior as of February 28, 2011, has decreased, and provided a chart that showed eight high risk audit recommendations with implementation dates of fiscal year 2010 or prior, excluding utilities, as of February 28, 2011.

## Enterprise Risk Management Report

Next, Mr. McMillan asked Mr. Daniel Mortland, assistant director for enterprise risk management, office of Business and Financial Services, to provide an update on Enterprise Risk Management (ERM). Mr. Mortland began his presentation (materials on file with the clerk) with a review of key milestones in 2010 and a discussion of accountability by structuring risk centers and appointing risk assessment leaders and risk owners. He presented a graph depicting risk centers and accountability, and provided an overview of the ERM annual process cycle. He then described the results of interviews with trustees and showed that this survey indicated the urgency of identified risks fell in the immediate or mid-term assessment category, and he provided a chart listing the top twenty risks reported by the trustees who were interviewed. He explained that enterprise assessment is a more quantitative approach than the trustee survey, and he provided a second chart depicting the top twenty risks reported through enterprise assessment. He used a risk map to indicate risk likelihood, impact, and control, and he presented a summary of the risk culture identified through the assessment. Lastly, he showed the stages of ERM maturity, stating that the University is currently in a “top down” phase.

### Medical Malpractice Offsite Insurance Coverage

Mr. McMillan then asked Dr. Peter Newman, assistant vice president for treasury operations, to provide an update on medical malpractice off-site clinical insurance (materials on file with the clerk). Dr. Newman first thanked his colleague, Ms. P.J. Kale, executive director for risk management, for her assistance with this presentation, and stated that 4,800 physicians, residents, nurses, dentists, and medical students are covered by this insurance. He explained that the first \$15.0 million of each occurrence is paid from a self-insurance trust fund, with \$60.0 million of commercial excess insurance to pay any claim greater than \$15.0 million. He showed

that the cost of providing this insurance for the current fiscal year is \$40.0 million, and emphasized the self-insurance contribution represented by the majority of the overall program cost due to the University's \$15.0 million deductible. He then presented a graph depicting the growth of actuarially projected liabilities, and showed the gap between trust assets and liabilities. He said that in 2009, staff were asked by the Board and Chancellor Paula Allen-Meares to review the medical malpractice program for onsite and offsite clinical activity, adding that offsite is defined as medical environments not under the sole control of the University. He described the reasons for focusing on offsite medical malpractice insurance and provided an overview of the initial steps that were taken from 2009-2010. He said contracts were reviewed and insurance certificates were reviewed and updated to reflect \$1.0 million per occurrence limits at off-site locations, and he stated that next steps include the formalization of self-insurance trust language for consistency with contracts and certificates, noting that this would appear on the Board's agenda at the June 2011 meeting. He stated that Dr. Joe G.N. "Skip" Garcia, interim vice president for health affairs, will also discuss this topic with the hospital committee at its meeting in March. Dr. Newman responded to questions regarding malpractice insurance and limiting liability.

#### Report on the Voluntary Separation Incentive Program (VSIP), Urbana Campus

Mr. McMillan asked Ms. Elyne Cole, associate provost for human resources at Urbana, to report on the Voluntary Separation Incentive Program (VSIP) at the Urbana campus. Ms. Cole stated that in spring 2010, the Urbana campus launched the VSIP for academic professionals and civil service staff and the Voluntary Retirement Program (VRP) for faculty in response to the financial situation at the State and University. She provided some information about the programs and qualifications for approval, and stated that while the initial goal for success was

participation of 200 employees, 825 applied for these programs. She stated that of the 659 applications for VSIP, 500 were approved, and 150 of 166 applications for VRP were approved. She said that 420 employees have left the University through the VSIP program and 63 through VRP to date, with 70 additional faculty scheduled to leave by August 15, 2011. She stated that she anticipates savings of \$19.0 million annually through these programs, and she provided additional benefits and details about VSIP and VRP. She provided examples of employees who have taken advantage of these programs, and responded to questions from committee members regarding specifics of each.

#### Summary of Financial Audit, Fiscal Year 2010

Next, Mr. McMillan asked Mr. Doug Beckmann, senior associate vice president for business and finance, to provide a report on the fiscal year 2010 financial audit (materials on file with the clerk). Mr. Beckmann introduced Mr. Patrick Patterson, controller and assistant vice president for business and finance, and commended him on completing the audit within six months of year-end. Mr. Patterson said the University received a clean, unqualified audit opinion on its financial statements and reported on three University-wide findings related to information technology access, procurement card procedures, and year-end payables processes. He described measures that are planned or are underway to address these findings, and he provided financial statement highlights, including growth in net assets and an improved financial position, and stated that the dramatic increase of the State's receivable was and continues to be cause for concern. Mr. Knorr commended Mr. Beckmann, Mr. Patterson, their staff, and their colleagues for their hard work and dedication.

### Review of State Finances and Proposed Pension Legislation

Next, Mr. McMillan asked Mr. Knorr to report on State finances and proposed pension legislation. Mr. Knorr said that the governor's budget proposed flat funding for higher education for fiscal year 2012, but advised caution as the legislative process will not conclude for over two months. He referred to the State appropriation receivable, which he predicted would equal \$485.0 million by the next Board meeting on March 23, 2011, and mentioned delinquent financial aid payments.

Mr. Knorr then discussed proposed pension legislation and focused on HB 146, which he said would apply the benefit structure that was recently passed for new employees to existing employees. He stated that informational panels on pension legislation will be presented for employees soon, said discussions with legislators are underway, and indicated that a summary of pension-related legislation was sent to committee members in advance. Some discussion followed, and Mr. Montgomery and Mr. Bearrows briefly discussed constitutional issues related to pension legislation.

### MEETING ADJOURNED

With no further comments or questions, Mr. McMillan requested a motion to adjourn the meeting. On motion of Mr. Montgomery, seconded by Mr. Oliver, the meeting was adjourned at 4:53 p.m.

Respectfully submitted,

*Michele M. Thompson*  
Michele M. Thompson

*Clerk*

*Eileen B. Cable*  
Eileen B. Cable

*Assistant Clerk*

*Edward L. McMillan*

Edward L. McMillan

*Chair*